

# Luxury Real Estate is Smart, Stable Investment If You Time It Right

Seattle market sees price corrections, many female tech and finance titans buying luxury homes in Beijing, and more news from around the world

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At present, Vancouver tops the list of UBS's 2016 Bubble Index. Pictured is a six-bedroom home in West Vancouver listed at \$8.15 million.  
*ENGEL & VOLKERS VANCOUVER*

When it comes to investment vehicles, experts agree that real estate is safer and less volatile than stocks, gold or currency. It also tends to be more palatable to investors, who need to have less background knowledge to make a smart buy.

That's why Thomas Veraguth, a Zurich-based senior economist with UBS Wealth Management, believes that, "it is very good to have real estate as part of a diverse investment portfolio."

But while real estate, generally, is considered stable, luxury real estate tends to have steeper ups and downs than average buys, Mr. Veraguth said. For this reason, the entry point—or when you chose to buy within a market cycle—matters.

It's also important that a luxury buyer who makes this type of so-called alternative investment doesn't over-leverage themselves and can hold on to the investment property for the long-haul, riding out any volatility.

"If you're not forced to sell your property at the wrong time and remain in control of when to sell, real estate will protect you quite well," Mr. Veraguth said.

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With those general principles in mind, there are several factors that can impact the success of a luxury real estate investment. Most of these come down to the financial goals of investors, which can be a diverse group, including risk-averse buyers who want to keep the property for a long time, as well as people who want to make a killing on a riskier buy, made—and subsequently sold—at the right time.

Regardless of the type of investor, the first thing to do when considering a luxury purchase is drill down to the **micro-scale details** about the property rather than focus on the macro market landscape, said Harry Chernoff, a real estate developer and clinical professor at NYU's Stern School of Business.

"A lot of people get lost in the macro issues," said Dr. Chernoff, citing the overall increase of housing stock in the United States as an example of data that would prove irrelevant to someone buying a property in Manhattan.

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Instead, he continued, a buyer should gather data to see how price per square foot, price-to-rent ratio and overall prices have trended over the past five or so years in narrow geographic regions they're considering.

"You really have to get it down to the specifics of the property itself and the neighborhood it's in within a short number of blocks to figure out if it's a solid investment," he said.

Zooming out to a citywide level, though, there are a few places at risk for bubbling over

and facing a serious price correction, Mr. Veraguth said, which are documented in UBS's 2016 Bubble Index.

At present, Vancouver tops that list, followed by London, Stockholm, Sydney, Munich and Hong Kong. Housing prices in these cities have all increased by close to 50% since 2011, whereas housing prices in other global financial sectors have risen by around 15%. Based on price increases, San Francisco, Amsterdam, Zurich, Paris, Geneva, Tokyo and Frankfurt are considered overvalued, while Singapore, Boston, New York and Milan are at a "fair value," with about 15% growth since 2011.

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"When you have strong increase in price," Mr. Veraguth said, "on average, you will have a price correction of 30%." But, no one knows exactly when that's going to happen, or if the correction will be that severe. Still, it's important to note that, "buying at the wrong time can be very costly," Mr. Veraguth added.

Which is why getting the **entry point** right is crucial. If you look at historic data on a specific location as well as what's happening in the larger city, you can see when things are trending upward, and anticipate when a price correction might take place, although even if a location is in "bubble risk" territory, a correction might still be one or two years away, as the last stage of a market cycle is generally a very strong price increase period, Mr. Veraguth said.

The good news for luxury investors is that, even if they get in at the wrong time, "luxury destinations should always recover, because you only have so many 'best locations' in the world," Mr. Veraguth said, noting that the recovery can in some cases take up to 10 or 15 years. "If you can ride out a correction and aren't forced to sell, your wealth will be stable and protected."

The next two variables that every real estate investor should consider—and they go hand-in-hand—are their **goals and time horizon**.

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To figure these out, an investor needs to consider how long they want to hold onto an investment, and what kind of return they want. If someone plans on living in the property, at least part-time, they generally have a longer time horizon of at least five years, Dr. Chernoff said. If they're renting out the property for some of that time, they might be happy with a relatively low return with a goal of just preserving their wealth.

But if a company or a person purchases luxury real estate and needs to get a 15% to 20% return in three to five years, the investor is under the gun to select something that's going to increase in value quickly. "If you can buy something in an up-and-coming neighborhood that costs one-third of a home in a more established area, some people will want to take that risk because there's a chance they can make a lot more money," Dr. Chernoff said. "People who do the best in real estate are innovative and creative like this."

If the goal is to park money away for a child's inheritance, as Edward de Mallet Morgan, a London-based partner at Knight Frank, recently had a client tell him he wanted to do, that time horizon is long, and the goal is for wealth preservation, but there are other variables this buyer needs to keep in mind.

While established areas in Manhattan or London are generally considered the most attractive for preserving one's wealth, inheritance taxes on a \$50 million property, which is what this client was looking to spend, would be significant in either place. But Monaco or the Bahamas, for example, don't have inheritance taxes if you pass a property on to a direct descendant, Mr. de Mallet Morgan said, which may make them more attractive options.

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“You have to always consider the future of the property and the next play to confirm you’re achieving your short- and long-term goals,” he said.

Here is a look at other news from around the world compiled by Mansion Global:

### **Seattle Home Price Growth Is At Its Slowest Pace In Three Years**

Despite its status as one of the country’s hottest housing markets (and a popular haven for foreign buyers), price growth in Seattle has slowed way down in recent months, well beyond the typical market cooldown that happens each winter. The median King County single-family home price of \$525,000 was at its lowest point in 11 months, and single-family home prices in the area only rose 2.7% year-over-year in January, compared to a whopping 24% annual growth the year prior. The median home price citywide is currently \$635,000, a \$31,000 drop from its record high in summer 2016. However, there’s still a chronic shortage of inventory, condo prices are still surging (up 23% year over year), and the Case-Shiller indicates home prices still growing at a faster pace than any other major city in the U.S. ([Seattle Times](#))

### **Sandra Bullock Renting Out Her L.A. Home For \$15,000/month**

For \$15,000 a month, you can have Sandra Bullock as a landlord. The actress has put her three-bedroom, 3,153-square-foot Hollywood Hills home back on the market as a rental, and at a relative bargain, down from the \$18,500/month she sought for the space in 2015. Bullock has owned the property since purchasing it for nearly \$1.5 million in 2001, and the 1942 home includes a master bedroom with a soaking tub and separate steam shower, as well as a two-car garage, spa, and private stone-decked heated pool. ([LLNYC](#))

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### **Younger Tech, Finance Titans and Women Buying Luxury Homes in Beijing**

Younger-than-ever magnates are buying houses worth over 10 million yuan (US\$1.45 million) in Beijing, and many of those buyers are female. A “new bourgeoisie” born into internet and finance industries has replaced energy industry tycoons as the main force in 2016’s booming luxury house market, according to a report from Maitian Real Estate Agency Co Ltd. Among Beijing’s female house buyers last year, 17.3% paid more than CNY 10 million (US\$1.5 million) for a house. The priciest house to be bought by a woman, a CNY 85 million (US\$12.4 million) single-family villa, was sold to a woman under 30. ([Securities Daily](#))

### **A Bullish Outlook For Chinese Property Building Has Stocks Surging**

Chinese property stocks are seeing serious gains and expected to continue their rise through 2017. After government market-cooling measures gave investors pause last year, investors believe the fundamentals of the market are strong (as evidenced by strong sales numbers) and that the market overreacted to the change. Home builder Country Garden saw its stock jump nearly 10% last week, as did R&F Properties, while numerous other developers including Beijing Capital Land and Sunac China saw gains over more than 7%. The 22 mainland China developers tracked by Bloomberg’s Intelligence index jumped 5.7% Wednesday, their largest gain in nearly a year. ([South China Morning Post](#))

**MORE:** [For Chinese Home Buyers, Seattle Is the New Vancouver](#)

### **Buyer Hesitation Hints That Sydney’s Market May Have Finally Peaked**

High-end buyers are starting to hedge their bets and sellers are pulling back from the market, indicating that Sydney’s ever-booming housing market may finally be leveling off. While prices still rose by 0.7% in January, transactions slowed, and the number of listings on the market has dropped 25% year-over-year, according to data from CoreLogic. Purchases from Chinese buyers have slowed after new government regulations were

instituted to limit cash outflow from the country, leading some analysts to believe that area prices could take a significant hit. However, the city's market may still remain out of reach for many buyers, even if prices take a hit: Apt Capital strategist Amy Reynolds said that, "house prices would need to fall by around 30% to come back into line with Australia's economic fundamentals and their own long-term averages." ([The Business Times](#))

### **Even Run-Down Homes In Sydney Are Selling At A Six-Figure Premium**

Sydney's market remains hot enough that sellers are apparently able to pull off lucrative flips without making much in the way of actual improvements. For instance, one Paddington home with peeling walls, fire damage, and holes in the floorboards recently sold for \$1.7 million, after having been purchased for \$1.2 million just 22 months prior. Similarly, a decrepit Victorian marketed as "ready for a complete makeover"—located across the street from a rundown shopping complex known as "murder mall"—recently sold at auction for \$1.5 million, and another dilapidated two-bedroom in Newtown has just hit the market priced between \$975,000 to \$1,050,000. Some of these properties are being sold to avid renovators, and while declining to comment on the lack of improvements made by the sellers, one of the home's brokers explained, "Prices have gone up a lot in the last year." ([news.com.au](#))

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### **Developers Bide Their Time Selling Dubai's Most Expensive Penthouse**

Though they've been in talks with various interested buyers since last year, developers at Omniyat Properties say they're holding off on selling the massive, AED 180 million (US\$49 million) penthouse at The Palm tower, with the company's Executive Chairman and CEO Mahdi Amjad saying, "Even last week we received an offer—but we want to finalize the sale until the very last moment." The Palm will be part of the still-underway AED 1.9 billion One Palm project, and the 62,000-square-foot penthouse will come with the option to be divided into multiple units, depending on the buyer's preference. While Omniyat is selling other units in the building, Mr. Amjad explains of the penthouse, "A developer can have the best properties on the best locations. But he will also need to make sure to have the right neighbors and operations. That's what we are working on." ([Gulf News](#))

### **A January Drop In U.K. Prices Is Seen As The Start Of A 2017 Slump**

The average home price in the U.K. fell 0.9% between December and January, according to numbers from Halifax, while the annual rate of growth dropped from 6.5% to 5.7%. Both declines are thought to be harbingers of a larger market slowdown in 2017. "While large month-to-month falls in Halifax's measure of house prices are common, price growth has fundamentally weakened since the [EU] referendum," said Samuel Tombs, chief U.K. economist at Pantheon Macroeconomics. Although lack of supply and low interest rates are expected to keep prices from dropping too dramatically, Halifax housing economist Martin Ellis said, "Nonetheless, weaker economic growth and increasing pressure on spending power, along with affordability constraints, are expected to dampen housing demand, resulting in some downward pressure on annual house price growth during the year." All told, Halifax estimates price growth between 1% and 4% in 2017, with prices actually falling in London. ([The Guardian](#))

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